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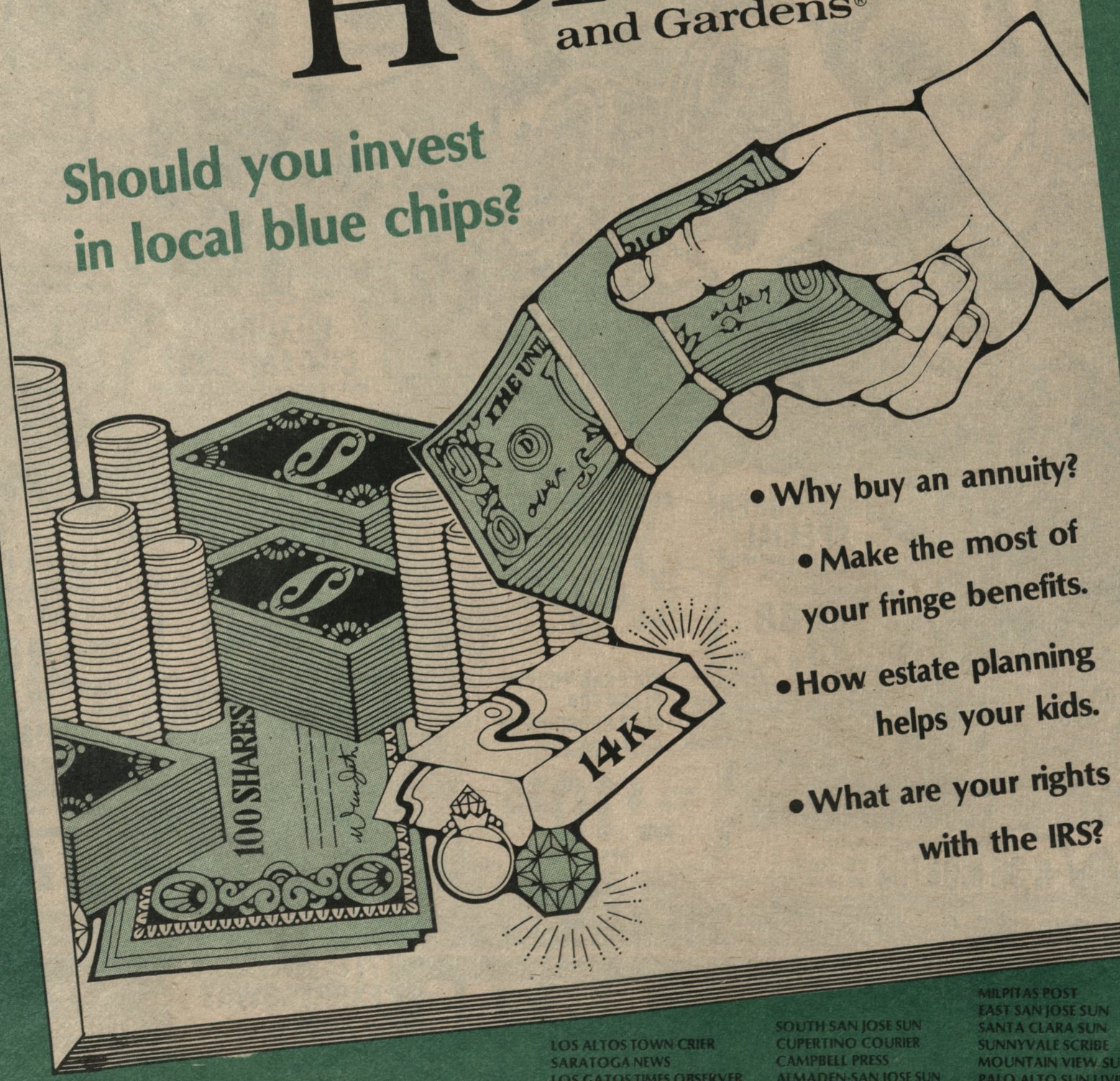
March 28, 1979

A unique newspaper supplement prepared in conjunction with the editors of....

Better Homes and Gardens®



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- Why buy an annuity?
- Make the most of your fringe benefits.
- How estate planning helps your kids.
- What are your rights with the IRS?

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CONTENTS:

The capital gains picture for 1979. . . . p. 6

You have legal muscle to flex with the IRS . . . . . p. 8

Silicon Valley: opening a new frontier for investors . . . . . p. 14

Does it really pay you to pay off your mortgage? . . . . . p. 16

Estate planning protects the future of your kids . . . . . p. 18

Tracing savings and loan history . . . . p. 20

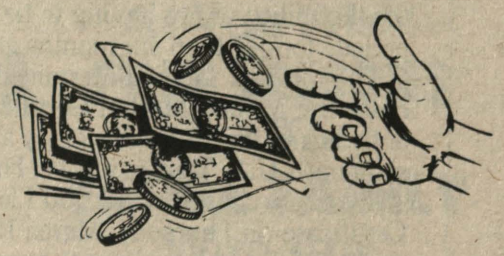
How to make the most of your fringe benefits . . . . . p. 21

How to halve you down payment . . p. 25

Why should you buy an annuity? . . . p. 26

Understanding money lingo: a mini-glossary . . . . . p. 27

Retirement planning: start now for security later on . . . . . p. 30



"Money Management" ™ is a supplement to:
Los Altos Town Crier
Saratoga News
Los Gatos Times Observer
South San Jose SUN
Cupertino Courier
Campbell Press
Almaden-San Jose SUN
Milpitas Post
East San Jose SUN
Santa Clara SUN
Sunnyvale Scribe
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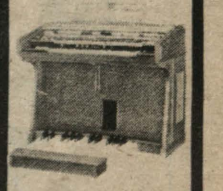

Under new tax laws

The capital gains picture for 1979

This week let's look at how capital gains will be taxed in 1979. If you have net short term capital gains you will add the entire gain to your taxable income. A net long term gain, the gain realized on the sale of an asset held for more than one year, is only partially taxable. Only 40 percent of your long term capital gain is taxed. The balance is exempt from federal income taxes for most people.

Let's assume you have a $10,000 long term capital gain. You may now exclude 60 percent of that gain, or $6,000 from your taxable income. Only $4,000 is added to your taxable income and taxed at your rate. If you were in the maximum tax bracket of 70 percent your tax on capital gain would be $2,800. The maximum tax on long term capital gains is therefore, for all practical purposes, 28 percent (40 percent x 70 percent).

As you can see, the new tax treatment of long term capital gains is more favorable than under the old structure in which only half of all net long term capital gains was exempt from taxes. The new tax treatment of long term capital gains increases the desirability of many conservative investment vehicles. Some types of investments you may wish to take a fresh look at are discount corporate bonds and growth stocks. In addition, certain new investment vehicles have been created which, in effect, convert ordinary income to long term capital gains.

The tax treatment of capital losses has not been changed. A net short term loss may be used to offset up to $3,000 of ordinary income dollar for dollar. A net long term loss of up to $6,000 can be used to offset up to $3,000 of ordinary income on two for one basis. Net losses may be carried forward into future tax years to apply against gains or to offset ordinary income of up to $3,000 per year. You should keep a watchful eye on your investments. It is often wise to take your losses before they become long term. Short term losses are twice as valuable as long term losses offsetting ordinary income.

The $1,000 personal exemption benefits the family with dependent children. Gifts to children and trusts set up for their benefit might be considered by all families interested in saving taxes.

The maximum tax bracket for earned income, the income a taxpayer receives "by the sweat of his brow" is still 50 percent. For taxpayers in high brackets, certain kinds of investments don't make much sense. The high yield earned by corporate bonds, many utility stocks and Certificates of Deposit are subject to high taxes; however, a large part of the return from deep discount corporate bonds is taxed at the more favorable long term capital gains rate. You may also wish to consider tax free municipal bonds for current income or tax deferred annuities and growth stocks if current income is not required.

Another way to deal with a high tax bracket may be to reduce it. Tax sheltered investments in real estate and oil and gas limited partnerships can offer substantial write-offs against ordinary income. The reduced taxable income could put the taxpayer in a lower bracket. It is also possible to convert ordinary income to the more favorably taxed long term capital gains. If you are contemplating any of these stragegies you should talk them over with your accountant and your financial advisor.

From "The Investor," a column of financial advice appearing regularly in the Meredith Sun Newspapers.

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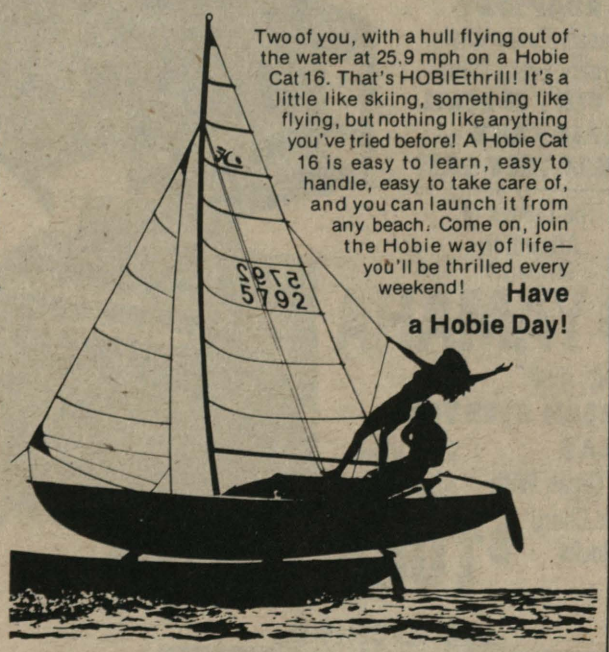

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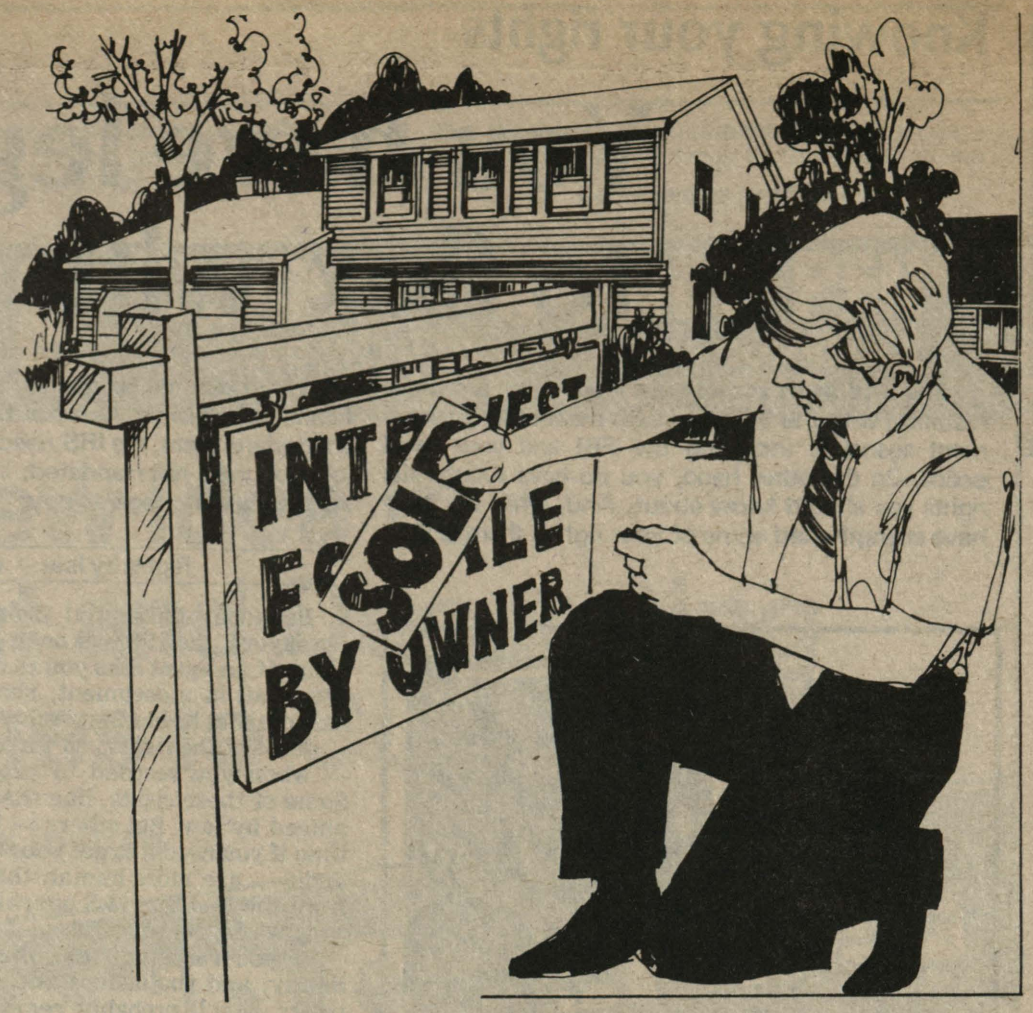

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Knowing your rights

You have legal muscle to flex with the IRS

The hard truth is that your legal rights are more restricted with the IRS than with most other government agencies, including the FBI and your local police. On the other hand, you do have substantial rights you should know about. And, while tax laws have strengthened some of your rights, there is little likelihood that the tax agency's powers will be significantly diminished. As all but the most far-out civil libertarians grant, the IRS needs its powers to do the job Congress has mandated: collect taxes from citizens not always eager to pay.

Rights by law — or policy

Because of potential problems with reluctant taxpayers, the IRS has been granted a lot of legal clout. If an agent asks you to do something — pay a tax, mail in a document, show up for an audit — assume that he has that right.

Most of the rights *you* have apply to Round Two — when you respond to requests from the IRS. Some of these rights, like that of appeal, are guaranteed by law. But others — like the right to extra time if you need it to get your papers in order for an audit — are more human than legal. They derive from the fact that IRS operating policies are truly pragmatic, not vengeful.

If you recognize that the IRS wants to tread lightly, and you understand your basic rights and theirs, you'll probably reach an equitable agreement without undergoing needless battle. Nevertheless, don't give in when you genuinely believe your rights are being violated; you have legal muscle you can flex.

Your right to reasonable time

If you need extra time to find a requested document, or if the date of a scheduled audit isn't convenient for you, you need only say so. The IRS will almost always grant reasonable requests. The important point is to communicate. You get into trouble only by failing to do what you are asked, and failing to say why.

This also applies to the actual payment of taxes. If you can't file your yearly return on time, you can get an automatic two-month extension — no questions asked — simply by filling out Form 4868. If you need still more time after that, you can ask for it either in a letter or on Form 2688.

Any time you are in financial difficulty, the IRS invites you to come in and talk it over. Generally, the IRS provides lenient treatment in cases where "immediate payment of the tax in full would cause undue hardship." The IRS may let you pay in in-

Continued on page 9

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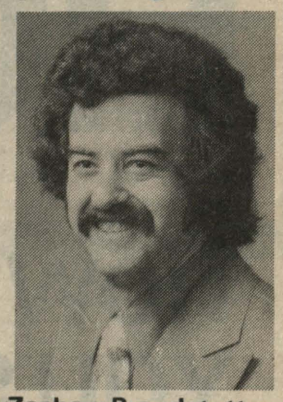
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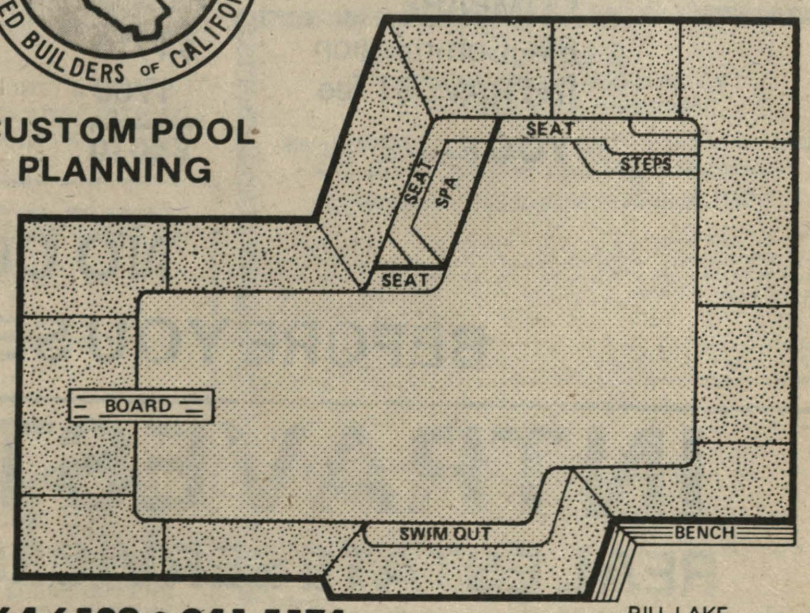

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IRS...

Continued from page 8

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Your right to professional help in an audit

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Your right to courteous treatment

You have the right to expect courteous treatment from any auditor or field agent. He or she, being human, will of course respond best to similar courtesy from you. Though the two of you are, technically, adversaries, that doesn't mean you must be enemies.

Auditors and agents are instructed not to harass taxpayers by picking endlessly at trifling problems and legal niceties. Unless your return is subjected to the relatively uncommon "research audit," which is specifically intended to examine every item on a return in fine detail, you can assume that the agent is just as anxious as you to make the process smooth and fast. Instead of asking you to substantiate all your medical expenses, for example, he is likely to spot-check by asking for just two or three canceled checks or receipted bills. If you can come up with those, he will generally assume you have been honest about all of the rest of your return claims.

If for any reason you can't get along with an auditor, agent, or revenue officer, you are entitled to have your case assigned to someone else. To do this, contact the IRS employee's supervisor, or address a letter to "Chief, Audit Division," or "Collection Division" at your local district office.

Your right to confidentiality

The IRS's own publication, *Audit of Returns*, says the "IRS has a duty under law to protect the confidentiality of your tax information." The laws governing your rights in this respect are fuzzy, or nonexistent, however. The fact is that your return can get handed around to various other government agencies without your knowledge of permission. The IRS won't show it to any private individual, company, or non-federal police agency.

But the Justice Department often requests — and gets — people's returns in the course of nar-

Continued on page 10

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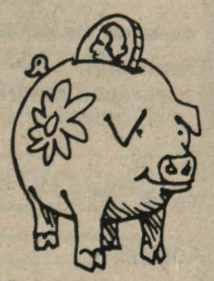

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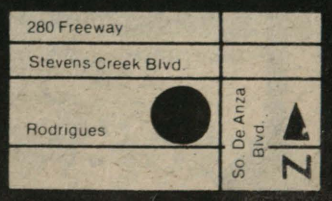

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IRS...

Continued from page 9

cotics investigations, for example. Also, the IRS swaps information and returns with various state and local tax bureaus. Those agencies can only use the information for tax administration purposes, however.

Your right to protection in questions of fraud

It is a crime to defraud the government by evading taxes. In practice, the IRS and its agents lean over backward to avoid criminal prosecutions because such actions are costly and time-consuming. But if your acts of evasion seem too flagrant or frequent to be attributed to carelessness, forgetfulness, or sloppy record keeping, your case becomes a criminal investigation. You must then tread warily.

If an agent does find what he thinks is evidence of provable fraud, he is instructed to stop work immediately "without disclosing the reason." Your next visit or letter or phone call will come from a particular breed of tax hunter called a "special agent." When you hear from a special agent, act as you would in any other situation involving possible criminal charges. Don't say anything until you have contacted a lawyer.

The burden of proof is on the government in the case of suspected criminal fraud. The government must show not simply that you underpaid your tax, but that you did it with "intent to defraud." In other words, the IRS must produce convincing evidence about your state of mind. Courts have never been easy to convince on this score, so you should have a good chance of winning your case.

Your right to appeal

Only a tiny fraction of audits end as criminal cases. Most end with the auditor determining that you owe extra tax, interest, and perhaps a non-criminal statutory penalty. (Some end with the IRS owing a refund.) If you are told you owe more, you have two choices: You sign a simple agreement form and wait for a bill; or you appeal. There are three main levels of appeal.

1. *The original auditor or agent.* This man or woman attempts to close cases quickly, cleanly, without loose ends. An audit ends happily for the auditor or agent when you sign that agreement form — not when you go off to higher levels of appeal. Thus, you can often bargain informally: "I'll agree to do *this* if you'll go along with me on *that.*"

2. *Higher levels within the IRS.* If you and the agent cannot agree, the next level is a so-called "district conference." Essentially, it is an informal, usually friendly discussion of your points of disagreement. You can appear alone or with the same helper who came to your audit. If that conference fails to satisfy you, you can go to the IRS's highest level of appeal: The Appellate Division in the Regional Commissioner's office. At any of these levels, you may win your case, lose it, or get part of what you want by making what the IRS calls a "compromise settlement."

3. *U.S. Tax Court*. If you and the Appellate Division still can't see eye to eye, your next step is to the Tax Court, which is run by the legislative branch of the government. Its judges are circuit riders. Your case will be scheduled whenever a judge gets to a city near you. You can represent yourself or be represented by a lawyer or accountant.

When the disputed amount is $1,500 or less, the Tax Court offers you a special simplified procedure. In the Small Cases Division, you appear before a commissioner rather than a full-fledged judge. The emphasis is on informality. You can hire a lawyer if you like, but it may be unnecessary. The usual courtroom procedures and rules of evidence are ignored, though the commissioner will insist that both you and the IRS get a fair chance to present your cases.

In the Small Cases Procedure, the commis-

Continued on page 11

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IRS...

Continued from page 10

sioner's decision is binding. Neither you nor the IRS may appeal it. If you case was heard in the regular Tax Court, you can appeal an unfavorable decision to a U.S. Court of Appeals, and then to the Supreme Court. This may involve more money, time, and trouble than you are willing to invest. These higher courts generally do not overturn Tax Court decisions. Moreover, you will almost certainly need a lawyer.

For the average middle-income taxpayer, the Tax Court is, in practical terms, the last stage of appeal. If you choose not to go to the Tax Court, however, there is another route — again time-consuming and potentially costly: You must first pay what the IRS says you owe, and then you can sue for a refund. That would take you through the U.S. District Court of the Court of Claims. Most likely, you would incur heavy legal expenses in the process.

The IRS's right to the truth

When you file your yearly tax return, the IRS may question any part of it — and the burden of proof is on you:

- The IRS may demand proof of any item on a return within three years of the date it was due or the date you filed, whichever came later. If you understated your income by 25 percent or more, the limit stretches to six years. If the IRS finds evidence of willful fraud, there is no limit.
- The IRS has the right to decide what kind of proof it wants. You may simply be asked to mail in substantiation. You may be called in to an IRS office for an audit. A revenue agent may want to conduct the audit at your home or place of independent business. These are considered legitimate requests. A taxpayer who refuses to comply is assumed to be hiding something — and that's trouble.
- Although the law doesn't require you to keep records of any particular kind, those you choose must be "permanent, accurate, and complete." An office auditor or field agent decides what "complete" means in each taxpayer's case. You may be asked for anything that is relevant to your money situation, including material that you feel is private: medical records, documents relating to divorce, and so on. No class of records is categorically "privileged" against IRS perusal.
- The IRS is required to notify you in advance if it intends to look at records of yours held by your bank or employer or other third parties. That

Continued on page 12

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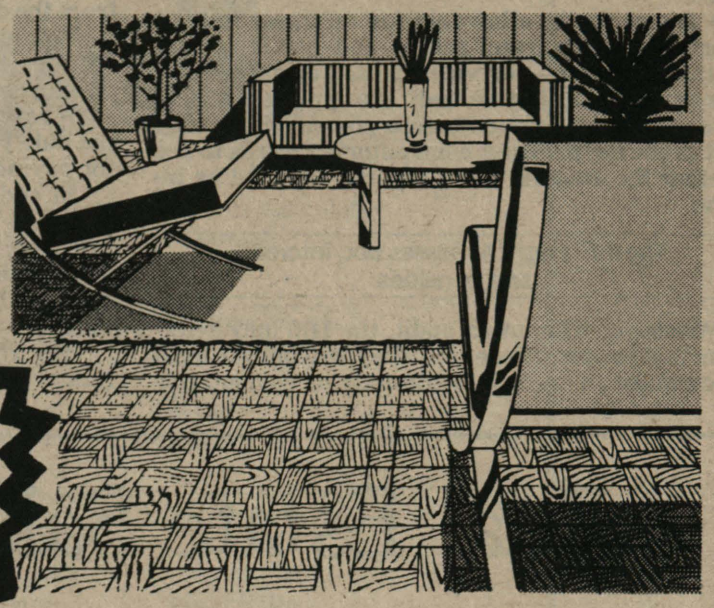

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IRS...

Continued from page 11

means you'll have a chance to protest the move in court.

• It's perfectly allowable for an agent to take information from your return and use it against another taxpayer — or vice versa. For example, if an agent finds during an audit that you paid $500 to have your house painted before you sold it, he may next probe the painting contractor's records to see whether the amount was properly reported as income.

The IRS's right to assess tax, interest, and penalties

Without or without an audit, the IRS may determine that you owe more tax. They will bill you for it if you make an error in arithmetic or computation or if you claim a deduction obviously not allowed by law. Even though the mistake wasn't your fault, you will be charged interest of seven percent a year from the date the return was due.

You must even pay interest if the mistake resulted from wrong advice given you by an IRS employee. However, interest or assessments in such cases begin to accrue only after 30 days from the date you receive notice of the error and demand for payment.

In addition, the IRS has legal power to charge penalties for various kinds of wrongdoing. For instance, if you file your return late without a good explanation, the penalty can be as much as 25 percent of the tax due — plus the seven percent interest.

The IRS's power to enforce its legally cleared money demands is enormous. If you fail to pay any bill without what the IRS considers a good excuse, a revenue officer may place a levy on your salary, bank accounts, or stocks and bonds. An exemption is allowed from the levy on your wages of $50 per paycheck plus $15 for each dependent, but everything else is fair game to the government. And if that doesn't pay off the bill, the tax man may seize almost any salable property, including your home.

You have a few rights in that situation, however. The law forbids the revenue officer to seize non-luxury clothing, a certain amount of fuel and food, tools of your trade or profession valued up to $250, and a few other items. As a matter of policy, IRS also avoids levying on social security benefits, the cash loan value of life insurance policies, and some other possible sources of money. But there is no law saying it must keep hands off these sources, and it will levy on them in "flagrant and aggravated cases of refusal to pay."

The IRS also has full rights to impose its penalty structure when you withhold taxes as a political protest. All those people who withheld tax money in protest against the Vietnam War, for example, were treated exactly like any other tax delinquents.

(Produced in cooperation with Max Gunther.)

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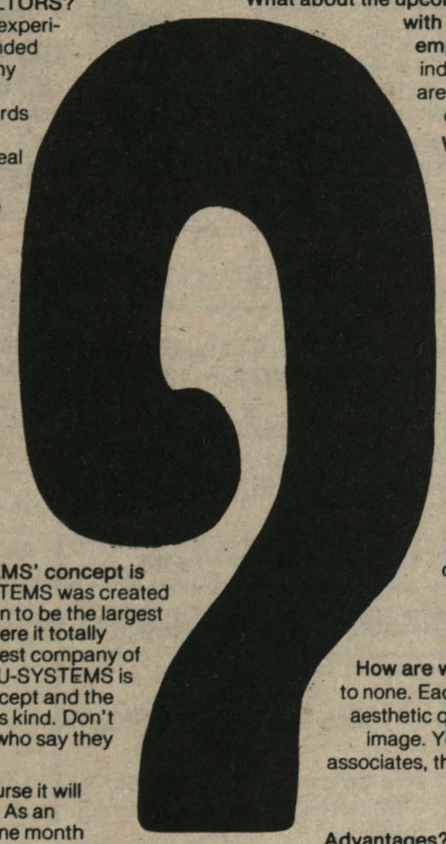

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The high technology stocks

Silicon Valley: opening a new frontier for investors

By JEFF MOAD

WHEN SILICON VALLEY talks, Wall Street listens.

The rapid growth of the high technology industries which gave Santa Clara County its nickname has created appealing new investment opportunities over the past few years, opportunities which have made many individual fortunes and which have led stock brokers, in New York and locally, to pay close attention to the latest technological breakthrough from any one of dozens of companies with local operations.

While growth and performance projections for other industries — automobiles, retail, consumables, transportation — are often clouded, many analysts are still predicting bright and encouraging things for companies that make computers, data processing systems, electronic instruments and semiconductors. That's good news for local investors with whom high technology industry stocks are popular.

According to Dean Witter Investments Vice President Richard L. Arington, "Investors in this area tend to be interested in the high technology stocks. They are high technology-oriented by education and awareness. If you're somebody living in Youngstown, Ohio, you probably don't even know what a high technology company is. In this area, it's a lot different."

Buy where you work

Brokers say local interest in high technology stocks is augmented by the companies themselves which often offer their employees attractive stock option or stock purchase plans. At IBM, about 1,385,000 shares of the company's current 146 million traded shares are owned by employees who take advantage of an automatic payroll deduction stock purchase plan through which they can buy shares at 85 percent of their market price.

Many of the newer, less well established companies attract top-flight employees with liberal stock option plans in place of top salaries.

Brokers say some local investors are lured to the high technology stocks because they think they have obtained some inside information from neighbors or friends within a company. Many executives or "insiders" are prohibited by the Securities and Exchange Commission from investing, however.

The local high technology and other companies which are listed on the New York or American Stock Exchange or are traded over the counter range from household-word familiar to downright obscure. Topping the list, of course, is International Business Machines, the classic, A+ rated blue chip stock.

IBM's earnings per share have multiplied more than 10 times since 1962. Its annual dividend has grown from $.62 in 1962 to $13.76 in 1979. It is the world's largest manufacturer of business machines and computers, and its earnings have grown at about 15 percent annually over the last 10 years. Although some experts warn that the company may be growing too large, inviting government interference and anti-trust suits, many others keep it on their list of stocks that should be "purchased aggressively."

> Stock purchase plans are another enticement which electronic personnel recruiters can offer.

IBM's appeal, especially for the small investor, is expected to rise noticeably at the end of April when a four-for-one stock split takes effect. Small investors who gulped at plunking down well over $300 for one share of IBM will be able to buy a split share for something like $80. The stock split has reportedly increased the interest of many institutional investors in IBM.

Also ranking high as a proven company and a relatively stable investment is Hewlett-Packard Co. Although HP pays only a $.60 dividend, it is recognized as the premier supplier in the electronic instrument arm of the high technology industry. The company recently announced a 37 percent increase in both sales and earnings for the quarter ending Jan. 31.

National Semiconductor is a third proven company with extensive local operations. Headquartered in Santa Clara, National is a major manufacturer of semiconductor components. National boasts 26,000 employees, and analysts predict it will enjoy an earnings advance of nearly 45 percent in fiscal 1978-79. Unlike Hewlett-Packard and Fairchild, another well-established local company, National pays no dividend. Fairchild's dividend is $.80 or 2.7 percent.

The volatile stocks

Next come the high technology companies which brokers place in the "high volatility" category. These are the companies away from which brokers steer widows and other fixed-income investors. In fact, warns broker Arington, it is unwise for anyone to get overly enthusiastic and invest everything in high volatility, high technology stocks.

Memorex is a classic example of the dangers of high volatility, high technology stocks. As a manufacturer of computer peripheral equipment, Memorex did remarkably well through the late 1960's. Often challenging IBM directly, Memorex rose from a high of 11.9 in 1965 to 173.9 in 1969. Then the company went into an accelerated nosedive, and stockholders found out what "high volatility" means.

Continued from page 15

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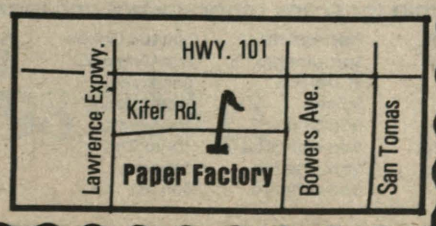

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Silicon Valley...

Continued from page 14

Memorex stock dropped to a low of 44.5 in 1970, 19.3 in 1972 and 1.4 in 1973. Debts rose, and the company's demise seemed imminent. Only strong intervention by heavy investors and miraculous management saved the company. Its stock is now at just over 34, and its annual earnings are on the rise. But the Memorex experience underscored for many investors the risks in the fast moving, high technology field.

Brokers note that the performance of almost all stocks is characterized by an "s-curve" pattern, with prices varying up and down in a relatively regular way. The frequency and the intensity of the price variations in many high technology stocks, however, are greater than those in many other industries, they say.

One reason for that is the changeability of the industry. New technologies can be replaced by newer technologies in a matter of months. The company with a product advantage today may be falling behind within six months.

Intel Corp. of Santa Clara is one company which has been successful at keeping up with new technological advancements. The maker of semiconductors, microprocessors and microcomputers has grown rapidly in seven years with the advent of the silicon "chip" which can perform the function of thousands of transistors. The company has grown to over 10,000 employees as the demand for its product from the computer, defense and automotive industries increases. Intel's share earnings are predicted by some analysts to rise by 50 percent in 1979.

But, like many of the rapidly moving high technology companies, Intel and its stock are far from a sure thing. In 1978, the price of Intel stock ranged from a high of 61 to a low of 30⅞. Intel, like most other growing high technology stocks, offers its shareholders no dividend, preferring to use all its capital to finance growth.

Another company in the high volatility category with impressive profit reports is Amdahl Corp., the latest company to make gains by challenging a small part of IBM's market. Amdahl has staked out the large-scale, high-performance computer market, selling units which are compatible with IBM systems and offer price advantages. Analysts predict its revenues will rise 40 percent in 1979. Its stock price rose to a high of just over 70 in late 1978 after starting at under 15 in mid-1976.

On the move

Other fast-moving companies slugging it out in the high technology field include Intersil, Advanced Micro Devices, Rolm Corp., and Four-Phase Systems, a computer company which made great gains right after it began trading on the New York Stock Exchange last September.

Many of the new high technology companies, such as Amdahl, are direct spin-offs from more established companies. The spawning of new high technology firms peaked in the late 1960's when there were so many new ones that brokers often never heard of them until they had either failed or were well on their way to being traded over the counter or on one of the major exchanges.

The current tight venture capital market has, to some extent, put a damper on the development of new high technology companies, although there are still new ones such as Apple which is specializing in the home computer market.

Some of the newer high technology companies, in fact, have been forced to look overseas for initial or growth capital. Amdahl is 28-percent owned by Fijitsu, Ltd., Japan's largest computer company. Intersil also is partially financed with foreign capital.

So far, however, analysts say, American high technology companies have been able to maintain a large lead over their foreign rivals both in technology and marketing. Local companies with strong international operations include IBM and Hewlett-Packard.

What about utilities?

People looking to diversify their stock investments or for whom the pace of the high technology industry is a bit fast and unpredictable can find more stable stock opportunities still within Santa Clara County. Utilities are usually safe, and local investors have a strong candidate in San Jose Water Works which offers an attractive 7.8 percent dividend. Water Works stock has not wavered more than six points over the past 12 months.

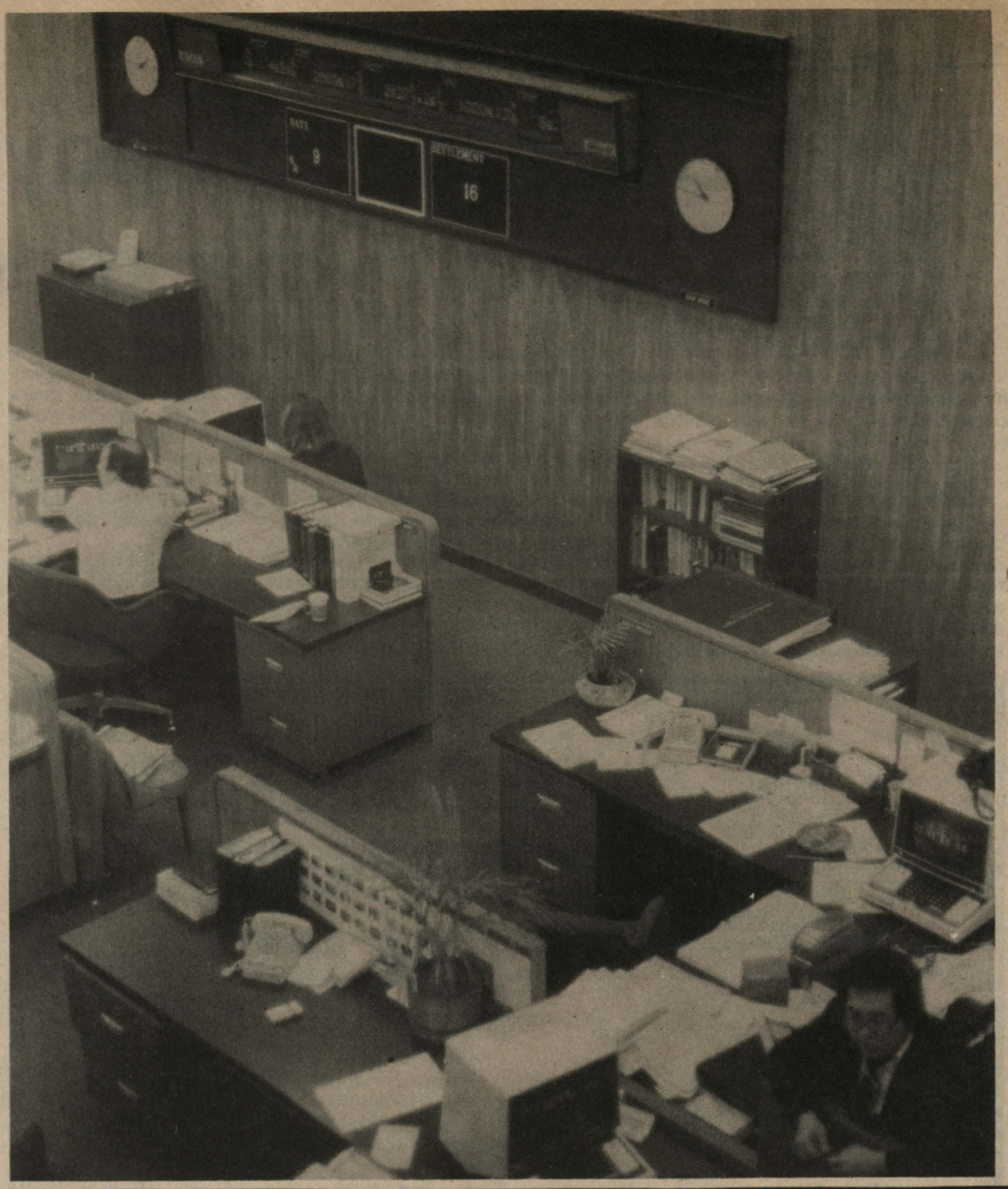
Water Works shares are attractive to institutional investors. Recently, the Roscoe Moss Co. of Los Angeles purchased 86,200 shares of SJWW stock for an estimated $1.8 million. The Los Angeles company has announced that it intends to acquire control of San Jose Water Works.

Another local investment offering shelter from the more highly volatile stocks is First National Bank shares (otherwise known as Bank of the West). Over the past 12 months, the bank's shares have traded at from 24 to just below 19. In a similar, stable category are local savings and loans such as Northern California Savings.

Two other large companies with local operations which have slipped from favor with many investors are FMC Corp. and Lockheed. FMC, which is now headquartered in Chicago, established a strong reputation on its farm machinery products. Its performance has been erratic in recent years, however, as the company has attempted to branch out into chemical production.

Lockheed is a classroom favorite, proof of the textbook warnings against investing in companies which depend on the government for too much of their business. The performance of its stock over the past few years has been erratic at best, but recently analysts have begun predicting an upturn for the huge aerospace firm with operations in Sunnyvale.

Most brokers and analysts agree, however, that, based on past performance and projected demand, the high technology industry, with all of its volatile changeability, will be one of the fastest growing and most interesting industries in coming years. That means the Santa Clara Valley and its industrial growth will continue to be of great interest on Wall Street.



The financial experts keeping track of Silicon Valley's stocks caution that those flashing figures on the wall can hold bad new as well as good. The volatile stocks are a case in point.

You could lose, in many ways

Does it really pay you to pay off your mortgage?

Although you'll save on the overall costs of your mortgage by paying if off early, you could be losing a considerable amount of cash in other ways. Here's why:

How much might you save?

Since interest on most mortgages is figured at a fixed rate on the declining balance of the loan, each monthly payment you make goes a little less to interest and a little more to the loan itself. What's more, your equity in the house — how much you own outright — increases at a faster pace as the loan progresses.

For example, on a 25-year, $30,000, seven-percent loan you might have incurred some years back, your monthly payments on a typical mortgage would be about $212. Of that amount, $172 would go to interest and $40 to principal beginning your second year. Right after the fifth year, $156 would go to interest, $56 to principal. After 15 years, interest would take $99 of your next monthly payment; principal, $113.

If you were to pay off that loan over its 25-year lifetime, your payments would total about $63,600 — $33,600 more than the $30,000 you borrowed. But if you were to wipe out the balance after 15 years, your total payments would be $55,111 — $38,160 over the first 15 years of monthly payments, plus $16,951 to pay off the principal. That's a savings of some $8,489!

Suppose your loan were more recent, reflecting higher interest rates. For a typical annual rate of nine percent, a $30,000, 25-year mortgage would cost you $252 a month, or $75,600 over the loan's lifetime. The interest payments: a grand total of $45,600 over 25 years. To pay off that same loan after 15 years would cost $65,474 — $45,360 over the first 15 years, plus $20,114 to pay off the principal.

Continued on page 17

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Mortgage...

Continued from page 16

Your savings: $10,126, compared to what you would have spent full term.

Why not save?

At first glance, the examples above make paying off your mortgage mighty tempting. Not only would you pay out a lot less money over the years; you would own the house outright sooner.

Yet mortgage prepayment is not what most money experts advice these days — especially on older loans that are made at interest rates considerably less than today's. Several reasons figure in:

1. Better ways to use cash

Under normal circumstances you should not pay off a mortgage in advance if you can earn a better rate or return on your dollars some other way that's reasonably secure. The fact is, these days you can earn eight or nine percent a year on various investments, such as long-term savings certificates, U.S. Treasury bills, and high-grade corporate bonds — most of them about as safe as any investment you can make, according to many specialists.

These opportunities may change in the future. But for now, if your mortgage is set at an interest rate equal to or less than what today's investment opportunities afford, paying off the mortgage is not the best choice.

To understand why, consider what you might do instead with the cash used to pay off those two sample mortgages 10 years before maturity. Every $1,000 invested at eight percent and compounded annually would earn $2,159 over that same 10-year span. Apply that figure to the roughly $17,000 and $20,000 you would have used to pay off the two sample mortgages (see chart below).

PREPAYMENT COMPARED TO INVESTING

	Approx. $ needed to pay off after 15 yrs.	Approx. $ saved by pre-paying	Approx. $ earned at 8% over 10 years***	Difference
7% mortgage	$17,000*	$8,500	$36,700	$28,200
9% mortgage	$20,000**	$10,000	$43,200	$33,200

*actual amount: $16,951 **actual amount: $20,114 ***compounded annually

Source: National Association of Mutual Savings Banks

2. "Cheaper" dollars

The persistence of inflation is another key deterrent to paying off a mortgage early. Quite simply, when the value of the dollar is declining each year, a long-term loan with a fixed-interest rate benefits the borrower. The reason: You're paying off in "cheaper" dollars, so your fixed payments cost you less each year in real value.

What if you have a "variable rate" mortgage or any other kind of mortgage whose terms alter one way or another as the value of the dollar changes? Then you don't have the same advantage as with a standard mortgage, but it's worth taking the time to figure the pros and cons of the math anyway. Your mortgage banker can help you determine the exact figures.

3. A greater tax break

Inflation counts in another way. Most likely, your income will increase over the coming years, and that will put you in a higher income tax bracket. One of the advantages of a mortgage loan is that interest payments are deductible on your income tax return. True, the amount of interest you pay on most kinds of mortgages declines each year, as the outstanding balance of what you owe lessens.

However, as your income taxes increase, so does the value of any deduction. If you're in a 25-percent bracket, every dollar you can claim as a tax deduction derived from mortgage interest saves you 25 cents; in a 40-percent bracket, you're spared 40 cents worth of taxes.

What if you invest your money instead of using the cash to pay off your mortgage? Then the tax picture depends upon the kind of investment you make. Several possibilities could lighten or eliminate the tax load on your investment earnings. For example.

- The present $100-per-year dividend exemption ($200 when you file jointly) would apply to the degree that other investments don't already use up those limits.
- Some investments provide a capital-gains tax break when you hold on to the investment beyond a certain length of time.
- You could try any of a number of tax-favored investments — from municipal bonds or bond funds to various forms of self-engineered retirement plans — now available to the average family.

4. No prepayment penalties

Some mortgages carry a dollars-and-cents penalty if you pay off some or all of the principal in advance before a certain time period. Check your mortgage contract for details about such penalties and weigh the additional costs against what you would expect to gain by prepaying your mortgage.

If you have questions about the contract, your banker can provide the answers. In fact, it's wise to discuss the whole matter of prepayment with your banker before making your move anyway.

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The steps to take

Estate planning protects the future of your kids

No matter how great or small your assets, you need some sort of estate planning to provide for your children until they can manage on their own. Here's why — and what courses you should consider taking.

If you haven't made definite plans for distribution of your property when you die, or if your plans are not drawn up according to the laws of your state, you're courting chaos for your family. That's true especially for your youngsters who cannot yet manage on their own.

For one thing, without adequate planning you relinquish control over how your property will be divided among your heirs and when they will receive it. For another, you may be giving up your say-so about who will look after your youngsters while they are minors.

To begin to understand the potential problems, consider the various ways property ownership passes on at death. Most commonly:

- Jointly owned property (like your home, perhaps, or some bank accounts) passes right to the surviving owner or owners.
- Life insurance proceeds are collected immediately by the beneficiary named in your policy.
- Any money or property you may have put into a "living trust" for your family remains in the trust until its terms authorize releasing the assets to the beneficiaries.
- Your will can dictate how you want all of your property, or specific property, to be distributed.

What if you don't have a will?

Then the laws of the state where you live at the time of your death will dictate who receives your property. Any property not legally bound by other means — joint ownership, insurance policies, or trust, for example — will be divided among your spouse, children, or other relatives according to the state's "law of intestate succession." Typical distribution might be two-thirds to the children and one-third to the spouse; or, fifty-fifty. If your spouse dies before you, or if you both die at the same time, it is likely that the children will all share equally in your estate regardless of age.

Once each child's share of your estate is determined, it is immediately available for the child's benefit unless you have provided otherwise in a trust or will.

That's where inadequate estate planning can cause problems. For example, any of your children who has attained majority will receive his or her share outright, with no restriction as to its use. If the youngster is still too immature to assume this financial responsibility, it's possible the inheritance will be needlessly dissipated through unwise investments or frivolous purchases.

Need for a guardian

Your will also can state exactly who you would like to act as guardian for your children. That person may be guardian of a child's *property*, of a child's *person*, or both.

If you leave no specific instructions through your will or other legally binding document, the

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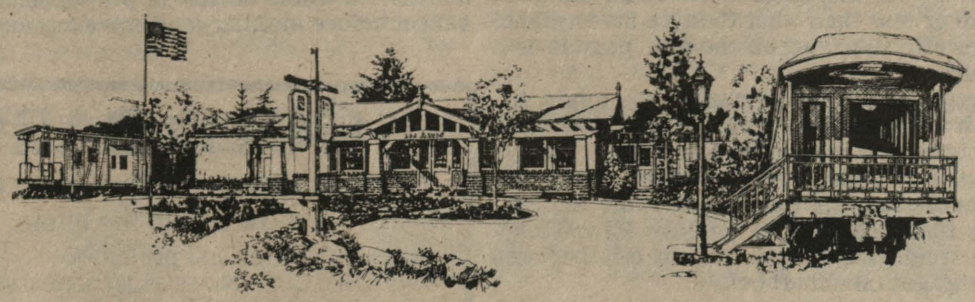

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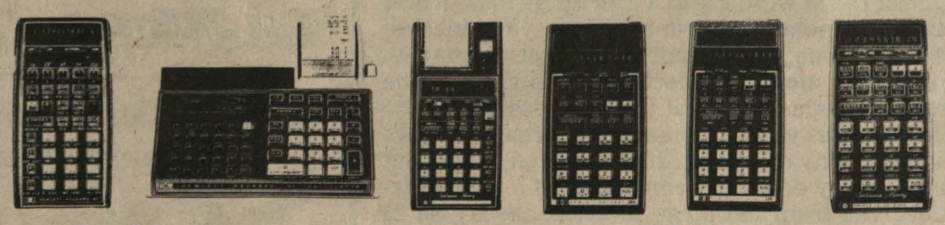

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Continued from page 18

court will appoint a guardian to hold the *property* of any children who are underage. Probably the court will choose a relative. However, if no relative is willing to assume the responsibility, the court may select a stranger.

All the questions of court-appointed guardianship can escalate legal and court costs — expenses taken out of the youngsters' assets. More important, when the court must make decisions because you did not, distribution of your property and the care of your children may take place in ways you never intended.

Whomever the court appoints, the guardian will be responsible for the care of the property of the child (called the "ward") so long as he or she is a minor. The guardian's responsibilities include investment of funds, as well as distribution of the money necessary for the care and support of the child. The court usually requires periodic accounting of how the property is being handled. Also, the guardian may need to seek court approval of certain investment or disbursement decisions.

When the ward reaches his or her majority, the guardian must make a full accounting to the courts. Should the child die before coming of age, his or her estate would have to be probated.

If both parents are dead, the court will also appoint a guardian over the *person* of the minor — generally until the youngster becomes of age. This guardian is responsible for all nonfinancial aspects of the child's well-being.

What should you do?

First of all, each parent should draw up a will. If you already have wills, review them to see that they reflect your current family needs. Be sure your wills take into account the possibility of the death of both parents as well as of one parent.

Consider these basic questions:

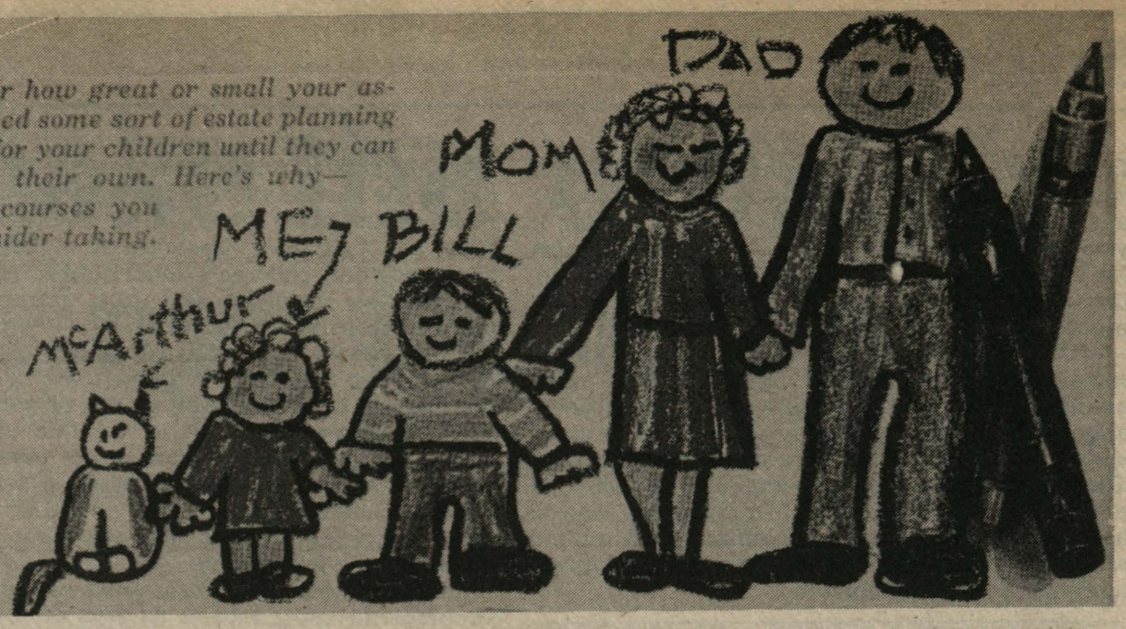
• **Who would you like to be appointed to raise your minor children in your absence?** Other members of the family are obvious considerations — but remember that when the time comes, grandparents may be too old to properly care for and supervise your children and their property during the formative years. Don't overlook close friends who are approximately your age and in whom you would have confidence.

• **How would you like to have your property divided among your children — or among their**

Continued on page 20

MONEY

No matter how great or small your assets, you need some sort of estate planning to provide for your children until they can manage on their own. Here's why— and what courses you should consider taking.



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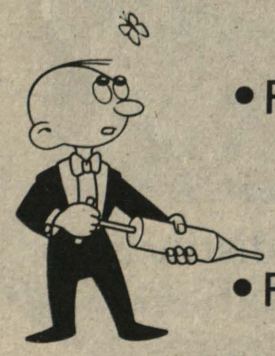

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families, if your children are deceased? You might want to make a distinction based on the relative ages and status of your children. For example, if you have already supplied an advanced education for an older child, you may want to make a monetary provision for a similar education for a younger brother or sister.

• **When would you like to have your children receive their inheritance?** Receiving the entire amount at once or at too young an age would probably impose an unnecessary financial responsibility on the child. There are several alternatives. The principal might be distributed in installments to your child at certain ages. Or, you may want to have your property held in a common fund until all of your children have had the same financial opportunity for a college education.

Does a trust make sense?

Even if you're not wealthy, a trust can be useful to you in many ways. It usually avoids the need for appointing a guardian over the property of a minor, since the trustee fulfills that function. A trust also can be the best way to delay inheritance until your children are more mature. And, the terms of the trust can include a "spendthrift clause," which protects your children's inheritance from being reached by creditors and also prevents your children from selling their shares.

Although you can create a trust for your children during your lifetime (a "living trust"), the most common is created by the terms of your will (a "testamentary trust"). It is put into effect only upon your death. One advantage of testamentary trusts is that they may be made contingent on several factors. You can provide that the trust won't come into being if your spouse is still alive when you die, for example.

If you decide on a trust, most estate planners recommend using a bank as trustee, since bank trust departments have a great deal of experience in this area. Furthermore, banks provide a neutral third party should a dispute regarding the trust arise among family members.

Some independent trustees will charge a fee for their services, others charge nothing. Banks' fees generally run between one-half of one-percent to one percent per year of the trust's value, with a minimum of $250 or $300 a year. The fees are tax-deductible.

What steps to take

Drafting a will or trust requires an expert hand. A lawyer familiar with state law will be able to advise you.

If you want to draw up a trust, talk to the potential trustee. Do not be reluctant to discuss fees or to specify how the trust will work. Often a bank trust officer will be willing to work with your attorney on the terms of your will or trust.

Also talk to the people who you want to act as the children's personal guardians. You usually won't have to go into any details about your finances, but the potential guardian may want to know approximately what kinds of funds will be available to provide for your children's needs.

Be sure to clarify all fees with the lawyer and the bank (if involved) before you draw up any papers. A will can cost from about $75 to $150, unless it is unusually complicated. Drawing up a trust agreement will run from about $100 to $300.

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Some key dates

Tracing savings and loan history

1831 The Oxford Provident Building Association founded in Frankford, Pennsylvania. First savings and loan association in the United States.

1831 First loan by a savings and loan is made to Comly Rich, the town lamplighter. Amount of the loan? $375!

1865 First savings and loan association organized in California.

1890 Founding of California Savings and Loan League in San Francisco.

1932 Federal Home Loan Bank System established.

1933 Federal savings and loan associations established under authority of the Federal Home Loan Bank Board.

1934 Creation of the Federal Savings and Loan Insurance Corporation.

1948 Total assets pass the billion dollar mark in California.

1950 First savings and loan branch office opened in California.

1965 Assets pass $25 billion.

1972 Number of offices, including branches, passes 1,000.

1976 Total assets pass $60 billion mark.

1976 Total number of offices passes 2,000.

1977 Total assets exceed $80 billion.

1979 Total assets exceed $96 billion.

California is the nation's largest savings and loan state, in terms of both assets and number of offices. California is more than twice the size of the number-two state, Illinois.

Information from the California Savings & Loan League

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Check your coverage

How to make the most of your fringe benefits

For every dollar paid in wages in the U.S., another 35 cents goes to fringe benefits — everything from paid vacation days to health insurance to moving and education costs. The total value to most workers is hardly "fringe" anymore; indeed, most families count a great deal on those extras. How well do your benefits fit into your overall financial planning? Are you making the most of your options? What supplements do you need?

There's no question about the cold-cash value of fringe benefits. Often they'll come to you absolutely free, with your employer footing the entire bill. Even when you have to pay something, group buying and bargaining between your employer and the benefit vendor generally keep costs low.

Fringe benefits are tax-savers, too. Many benefits provide value without causing your taxable income to rise. Also, various benefits may be tax-sheltered, so that funds can accrue at an accelerated pace.

Know what you have

Fringe benefits vary considerably from one job to another. Though you may not have much choice about which benefits you get, the least you can do is not take them for granted. It will take some study and planning to fit your benefits into your personal money plans.

It's expecially important these days to get all the facts because the trend is toward greater benefits and sometimes more choices. Understanding the rules will help you make the most of your options. You'll protect your interests by becoming aware of deadlines and other requirement that you might overlook otherwise. And, if both you and your spouse are working, you may spot ways to integrate benefits to some degree — or at least avoid unnecessary duplication.

Keep these suggestions in mind as you look into your fringe benefits:

1. *Don't rely just on your benefits for financial security.* Though they may form a solid base for your planning, fringe benefits should not provide your sole source of protection or savings for the future. Job situations change, after all. You might be forced to leave work — or choose to leave — and forfeit good benefits in the process. Also, some benefits are not adequate for specific family needs; in this case, the benefits may require supplementation.

2. *Make the most of matching funds.* Many benefit plans combine company contributions with cash from your own pocket. Your personal contributions may be a required part of the deal or offered as an option for additional benefits.

Often for just a few dollars more a month you can add considerably to your savings through various taxsheltered devices, for example, or double

Continued on page 22

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Fringe benefits...

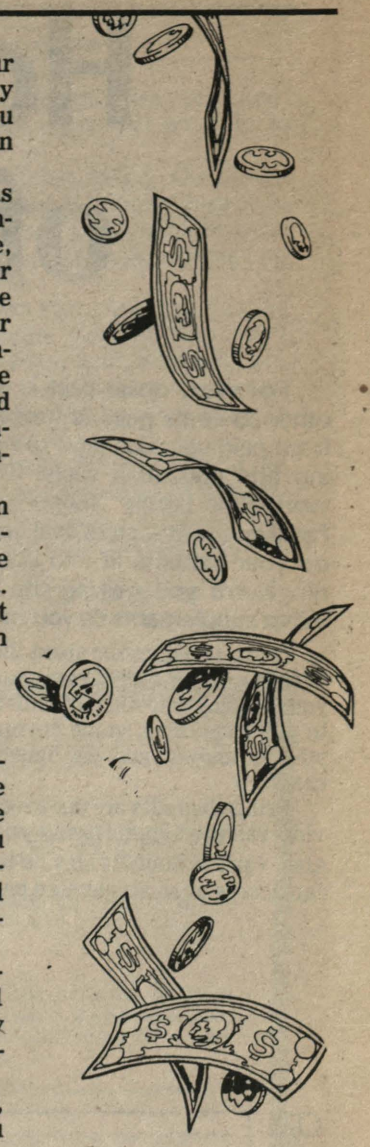
Continued from page 21

your life insurance coverage. Every dollar your company contributes is yours potentially, one way or the other. That's free money, no matter how you look at it, so don't turn down voluntary contribution deals if you can possibly spare the dollars.

3. *Keep beneficiaries current.* As life situations change, so do family needs. Who is listed as secondary beneficiary on your company life insurance, for example? If your kids are grown and on their own, perhaps you want to focus your insurance planning on needs other than protection for your children. What are your options about pension annuities — for your life, and your spouse's lifetime too? Has a change in your family assets altered your annuity needs? Have you informed your company about new family members to be included under various insurance plans?

Just as you keep your company up to date on how you want benefits distributed, keep your family posted, too. Store complete records in a place your spouse and other family members know about.

With those three rules in mind, take a look at your various fringe benefits in conjunction with your other assets and protection.



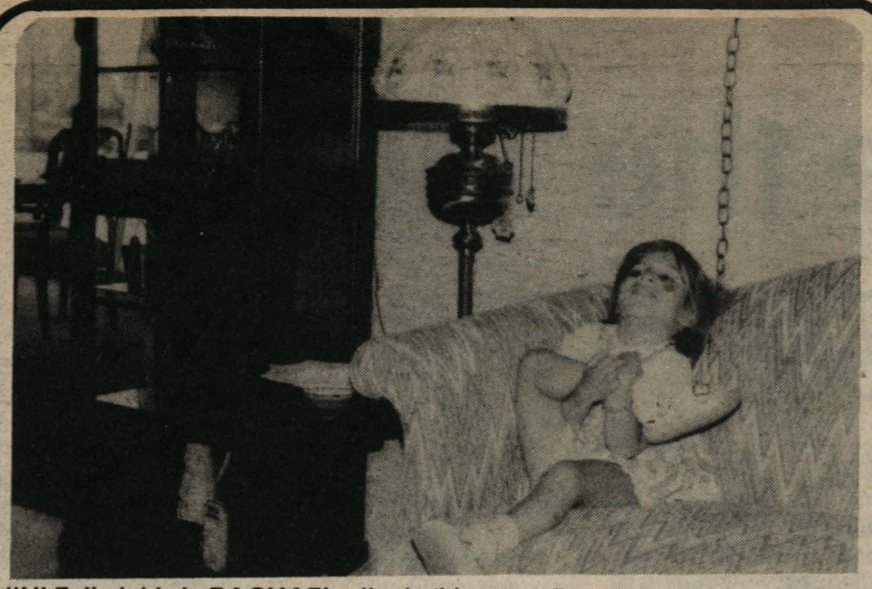
Pension plans

What if it's your choice whether or not to participate in a company pension plan? Generally, the sooner you join the plan the better. If you are young, you are more likely to be changing jobs; you don't want to forfeit the benefits of company contributions if you can help it. If you are older, you'll want to build up retirement funds as rapidly as possible.

Some pension plans allow you to make additional contributions on your own, and the earnings will accumulate without taxes due so long as the money stays in the fund. That's a good way to build up retirement funds.

When you leave a company after you are vested, you may be able to take the pension money with you

Continued on page 23



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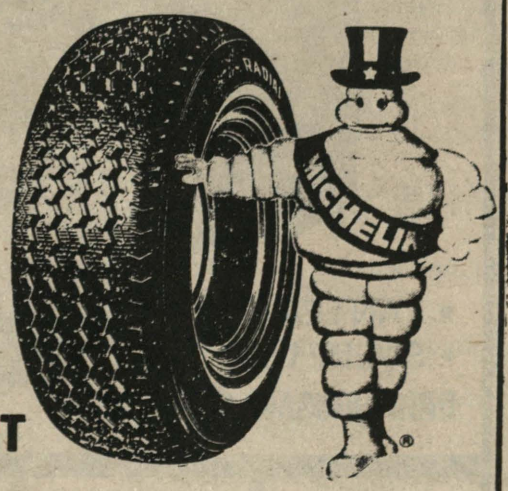

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Fringe benefits....

Continued from page 22

and still save on taxes by putting the cash into a tax-sheltered individual retirement account (IRA) within 60 days. IRAs also can be useful when a company makes pension plans optional and you plan to leave the job bevore you would be vested. In that case, you may be able to turn down the plan and set up an IRA on your own — provided you're not participating in a tax-sheltered profit-sharing or savings plan at the same time.

You can put up to $1,500 a year into an IRA account ($1,750 if you're married and your spouse has no such plan) and deduct that amount from your taxable income whether you itemize deductions or not. The fund's earnings also are tax-sheltered until you retire.

Details of IRAs can be tricky. Specific kinds of investments offer specific advantages and disadvantages. Also, penalties for premature withdrawal of funds are stiff (immediate payment of all past taxes on the funds you withdraw, plus a ten-percent tax penalty). The only exception to those penalties comes when you are disabled. Check with a banker, an insurance man, or other financial counselor before going ahead with your plan.

Savings and investment plans

Even though your company pension plan is generous, work at building up a savings and investment program as well. The cost of living is only going up. It's not wise to count just on social security and a pension for a comfortable retirement.

Many companies now provide some sort of tax-sheltered savings and/or investment plan, or a profit-sharing deal. Often these are matching funds programs — for every dollar you put in, the company contributes 50 cents or a dollar. Most plans like these require a vesting period before you "own" the funds your employer contributes.

The value of such plans is great. Not only are the dollars free from your employer, but the money won't be taxed to you until you withdraw the funds. Nor will the plan's earnings be taxed as income until you cash in the plan. As with pension funds, when you leave the company you may be able to put off taxation on the savings plan through an IRA. Most of these plans also permit early withdrawal of funds without penalty for specific purposes such as education costs and buying a home.

Even if you have a pension plan, work at building a savings and investment plan, too.

Many company savings and investment plans offer a number of options. You might be able to peg some of the money toward purchase of stocks. You might have the choice of a fixed-income fund instead, guaranteed to earn a certain percentage income each year for a set period of time. Or, you might be able to split your contributions between fixed-income and stock funds.

Which form you choose depends upon your view of the economy, your personal investment objectives and attitudes about risk, the period of time and amount of money available to you for investing, how your other assets are balanced between fixed-income and potential-growth media. If you have a solid savings program on your own, for example, you might want to go with the stock plan for potential growth (presuming you have the choice). On the other hand, if you're glum about the securities market these days, a fixed-income plan might fit your projections better. With most plans, you can change your strategy at specific times — switching from a fixed-income fund to a stock plan, then back again, for example.

Often you'll also have a choice about how much of your salary you want to contribute to a savings and investment program — typically, from one to five or six percent of your gross pay each month — and the company will contribute according to some matching-funds formula.

Medical insurance

Most companies provide some sort of medical

Continued on page 24

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Fringe benefits...

Continued from page 23

coverage, but the benefits vary considerably. In determining your overall money plans, consider questions like these:

• Does your health plan include major medical coverage to protect you against real financial disaster in case of severe illness? If not, buy a major medical plan on your own. It's not very expensive, and you can keep costs down even more by going for a larger deductible — the few hundred dollars you agree to pay on your own before the major medical takes over. In fact, it might make sense to use the dollar value of your basic group plan at work as a guideline for determining the size of the deductible you can have on the major medical plan you buy. An insurance agent or broker can locate the plan that will best integrate with your group coverage.

• When does medical insurance protection stop for your kids? Generally, the time limit is after the youngster graduates from college or reaches age 22. Be sure he or she is aware of that deadline and takes on individual coverage when the time comes. If basic benefits coverage is too expensive, at least see that there is major medical protection. For a person in that age range, good coverage costs about $100 a year.

• When you and your spouse have health insurance at your respective jobs, examine the costs to you of each plan. Most health policies won't pay duplicating benefits; you won't collect twice for the same thing. Nor will you collect more than your actual expenses. If you are paying for identical coverage at each job or it costs less at one job, drop the superfluous plan. Remember, though — in most cases one health insurance plan picks up where the other leaves off; don't drop extra coverage when you might need it.

Disability income

Most employers provide some sort of short-term sick pay, but there may be gaps beyond that. Check out your longer term disability protection, and consider a private plan if your job does not provide a good one. When your employer offers disability coverage, snap it up; it's bound to be cheaper than similar protection you could buy on your own.

Life insurance

Even if you have group life insurance through your job, it's probably wise to start some sort of plan on your own. You'll have that in reserve if you leave the job. That's especially important in case you become uninsurable because of illness.

When you leave a company, you generally have the option of converting your life insurance to a private plan within 31 days without having to pass a physical exam. (The same may be true of your health coverage.) Presuming you're not worried about the physical, you may find a better plan for less than the converted plan would cost you.

Find out the conversion deadline and explore the alternatives right away. If you fear that a medical exam would show you to be uninsurable, or suffering from a malady that might raise your insurance rates, it's important to utilize the conversion option.

Other benefits

Many companies provide a great number of benefits you might not ordinarily think about. The dollar amount is not always stupendous, but there are other values to consider. Sometimes these less obvious fringe benefits are not publicized; it's up to you to ferret them out.

Your company might pay for some education expenses, or contribute matching funds when you make a donation to charity. Group legal help is another fringe benefit that's catching on. Also, employers often will provide space for a credit union.

Don't dismiss benefits just because you must pay something. For example, dental insurance premiums may cost you several dollars a month — but that could be a pittance compared to a year's worth of dental bills. On the other hand, don't take on optional benefits without shopping. Some companies now offer group auto insurance, for instance. Probably it's a good deal, though particular kinds of coverage may be limited. Look at alternatives.

Private mortgage insurance

How to halve your down payment

One obstacle to buying a home may be the 20- or 25-percent down payment many lenders require — easily $20,000 or more at today's home prices. FHA- and VA-insured loans aren't always the answer, despite their low down payments. For one thing, restrictions may disqualify you or the house for these loans. For another, the paperwork on government loans can take months, and few sellers will wait that long.

One way out of the bind may be private mortgage insurance. Though it's been around for a long time, more and more families are finding it the best way to get the house they want now, without having to come up with lots of cash for a down payment. On a $100,000 house, for example, the conventional down payment might be $20,000 or $25,000. With private mortgage insurance, you would need much less.

How does private mortgage insurance work?

Normally, low-down-payment loans are considered risky for banks, savings and loan associations, and mortgage companies. The reason: There's a high default rate for buyers who have little of their own money in their homes.

Private mortgage insurance removes that risk by guaranteeing the mortgage payments until the first 20 or 25 percent of the mortgage loan has been paid. At that time, the lender's risk is no greater than if the normal down payment had been made to begin with.

Private mortgage insurance offers two advantages in addition to lowering your down payment needs: (1) The lender is more likely to grant the loan since he is protected by the private mortgage insurance. (2) The deal is likely to be consummated without delay, because private mortgage insurors move through the required paperwork in a few days.

Who pays?

The borrower, of course, pays extra for private mortgage insurance — but the costs are a lot easier to manage than if you had had to come up with the down payment all at once. Here's how the costs for the insurance are fixed:

- On a five-percent down payment, the premium is one percent of the mortgage amount, payable at closing. On a down payment of 10 percent or more, the premium is one-half of one percent.
- After that first fee, you pay one-quarter of one percent per year on the declining balance. Premiums are included in your monthly mortgage payments.
- Premiums continue until you have paid off 20 to 25 percent of the mortgage. That usually takes about 11 years on a 30-year-loan. The effect is to raise your mortgage rate for that period by about one-quarter of one percent.

How do you get the insurance?

Private mortgage insurance is available through banks, savings and loan associations, and mortgage companies in all parts of the country. If your lender doesn't provide the insurance, shop around. Or ask your builder or Realtor to find the insurance for you.

About a dozen companies specialize in this kind of plan, with rates about the same everywhere. Usually the lender decides which company to use.

For any private mortgage insurance deal, your credit rating will be checked by both the lender and the insurance company. Both will be interested in how the monthly mortgage payments — insurance premiums included — compare with your monthly income. Most lenders and insurors prefer that those payments be no greater than 25 to 30 percent of your income.

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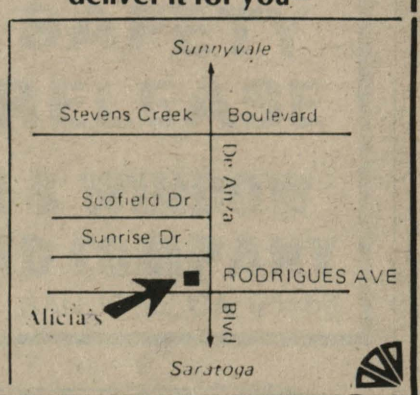

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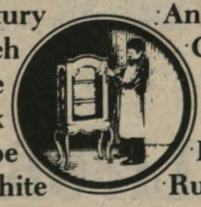

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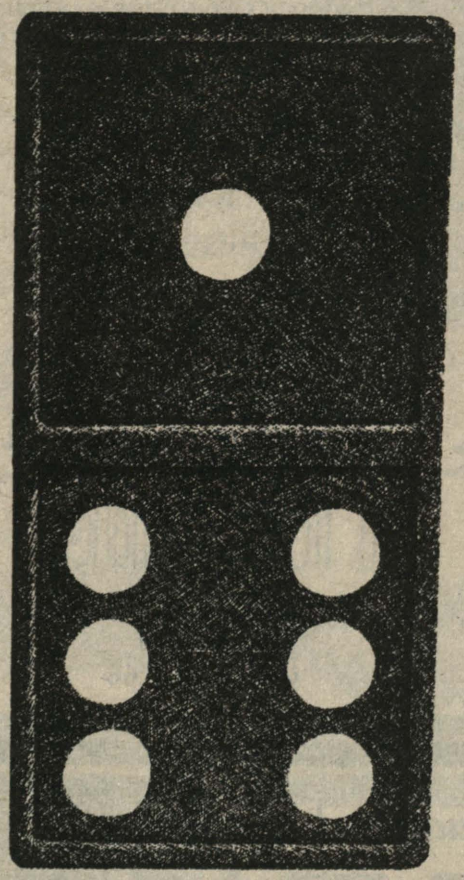

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50 California Locations

A guaranteed income

Why should you buy an annuity?

The purpose of an annuity is to provide you with a guaranteed income, generally on a monthly basis, for as long as you live. You can buy an annuity plan that covers just your life span, or one that also covers the life of any survivor you designate. Insurance companies are the major suppliers.

An annuity can be a key part of your retirement income. The biggest selling point is that an annuity makes sure you'll have some money coming in as long as you live. The chief disadvantage is that the return on your premium dollars can be relatively low, compared to some other investment or savings possibility.

You may buy an "immediate" annuity, with monthly payments starting as soon as you pay the premium. Or, you may buy a "deferred" plan, with payments beginning at a designated later date.

An annuity is really the opposite of life insurance: an annuity pays you while you live; insurance pays after you have died.

Like life insurance, annuity rates are figured from your life expectancy as shown on the mortality tables. The longer you're expected to live, the higher the premium or the lower your monthly payments.

Women generally pay higher annuity premiums than men simply because the average woman lives longer and will collect more benefits than the average male. A typical immediate annuity starting at age 65 for a man, for example, would cost $12,500 in order to pay out $100 a month for life. A woman would have to pay a $13,400 one-time premium for the same monthly return.

Continued on page 27

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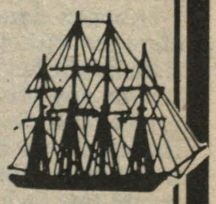

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Annuity...

Continued from page 26

Some common misconceptions

Though annuities aren't for everyone, don't let these common misconceptions fool you.

1. *You have to put up a lot of money to buy one.* Not true. Instead of plunking down a single premium, you can buy a deferred annuity on installments — annual, quarterly, or sometimes monthly. It's also possible to set one up with no outlay at all by converting the cash value or all the proceeds of a life insurance policy to an annuity.

2. *Benefits stop when you die — even if you've received them for only a few months.* True only if you buy a straight life annuity. Other kinds of annuities continue to pay after death. For example:

• A joint and survivorship annuity pays to one or more designated survivors until the last of them dies. The contract can stipulate full benefits to the survivors, or a reduced benefit.

• A life annuity with "years certain" guarantees payments not only for life but for a minimum period, say, 10 or 20 years. If the annuity holder dies before then, payments continue to a beneficiary until the end of the guaranteed period. If the annuity holder lives beyond that period, he continues to collect until death.

• A refund annuity keeps paying after death until the amount paid back equals the purchase price of the annuity. The refund can be in one lump sum or in installments, as agreed upon in the contract.

3. *You lock yourself into a contract from which the only out is death.* Not so. Annuity contracts are flexible. For example, you can usually get your money back anytime before the benefits start, change the date at which benefits are to begin, or make other changes.

4. *You have to be 65 to start collecting.* While most contracts are set up to begin at that age, you can buy one that begins paying earlier — say at 50, 55, or 60. Your benefits will be smaller than at 65 because you will be receiving them for a longer period.

5. *Annuities don't keep up with inflation.* Because your regular annuity sets a fixed-dollar payment per month, those dollars will be less as the years pass and inflation continues to erode the dollar. However, many companies allow you to buy a "variable annuity" plan designed to counteract inflation at least in part. Variable annuities are backed by investments in the stock market, and the amount of your monthly payment will vary with the value of those stocks. (There is a risk, of course, since there is no guarantee that the market will go up.)

6. *You can't get a loan on one.* On the contrary, annuity contracts have loan provisions like those of insurance policies. You can borrow against your contracts up to the time the benefits start.

7. *You're better off saving your money in a bank, getting the benefits of compounding, and then drawing on the total when you retire.* The major drawback here is that you could eventually run out of money if you live to a ripe old age. But you can't outlive an annuity.

A new kind of annuity

Among new variations on annuity plans is a single-premium deferred contract called an "investment annuity" now being offered by some insurance companies and stock brokerage firms. This contract has such features as:

• *Seven to eight percent guaranteed interest.* That's about double the accumulating interest guaranteed in most traditional annuities. A few companies are guaranteeing this rate for from one to five years.

• *No "load."* Some contracts are being sold without sales charge or agent's commission.

• *Los initial investment.* This can be as little as $1,500 with some companies, which allow later additional purchases of that amount or more.

• *Tax benefits.* Among them: Interest earned by the plan accumulates without any tax being due from the time you buy the annuity until the time it begins paying benefits.

• *Avoidance of probate.* If you die during the deferral period, the proceeds in most states go directly to the beneficiary named in the contract. Though the money is part of your taxable estate, it won't be hit by probate costs in addition.

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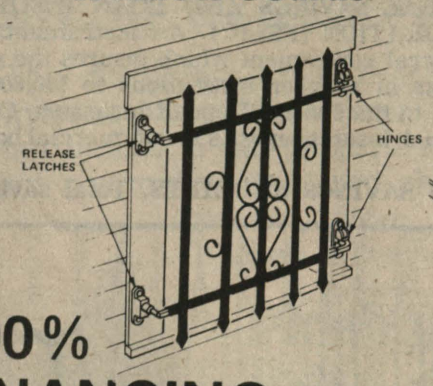

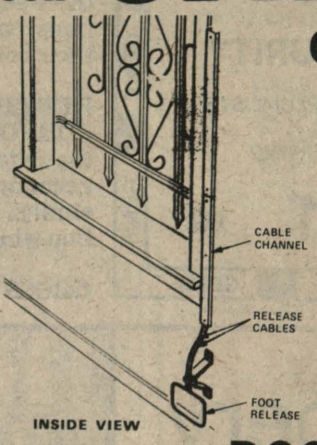

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Understanding money lingo: a mini-glossary

Want to talk money like a pro? All of us get puzzled at times by some financial terms, so here's a handy mini-glossary of terms associated with the savings and loan industry. The glossary is provided by the California Savings & Loan League.

AMORTIZED LOAN. A loan requiring equal periodic payments which reduce the principal to pay off the loan in full by a predetermined date.

ASSETS. Some people new to the savings and loan business immediately think that **savings** are an association's assets. Actually, the loans on its books, i.e., the money owed the association by its borrowers, represent the bulk of a savings and loan's assets. Other assets include cash and investments, plus office buildings owned by the association.

BALANCE SHEET. A statement of condition of an association, showing the amount and characteristics of its assets, liabilities, reserves and capital stock on a specific date.

COMMITMENT. An advance agreement to provide funds for a real estate loan.

CONVENTIONAL LOAN. A mortgage or real estate loan without FHA insurance or VA guarantee.

Continued on page 28

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Glossary...

Continued from page 27

DIVIDENDS OR INTEREST. Earnings paid on savings accounts by savings associations.

EQUITY. The amount of principal that has already been paid off on a home loan.

FEDERAL HOME LOAN BANK (FHLB) OF SAN FRANCISCO. One of 12 federally chartered regional banks of the Federal Home Loan Bank System. A regional bank's primary function is to supply credit to its member institutions. In the case of the San Francisco Bank, this includes savings and loans in California, Nevada and Arizona.

FEDERAL HOME LOAN BANK ADVANCES. Loans made by a Federal Home Loan Bank to a savings association. These advances enable a savings and loan to continue to make loans even when the inflow of savings slows down for one reason or another.

FEDERAL HOME LOAN BANK BOARD. An agency of the federal government which provides a credit reservoir for thrift and home-financing institutions through 12 regional Federal Home Loan Banks, charters and supervises federal savings and loan associations, and directs the Federal Savings and Loan Insurance Corporation. The Board consists of three members appointed by the president.

FEDERAL SAVINGS AND LOAN ASSOCIATION. A savings association chartered and regulated by the Federal Home Loan Bank Board. Such institutions can be identified by the word "Federal" in their corporate title.

FEDERAL SAVINGS AND LOAN INSURANCE CORPORATION (FSLIC). An instrumentality of the federal government which insures the savings accounts in member institutions to $40,000. It is similar to the Federal Deposit Insurance Corporation which insures deposits in commercial banks.

GROSS SAVINGS RECEIPTS. Total savings received by an association in new accounts or additions to existing accounts, as well as dividends or interest credited to accounts.

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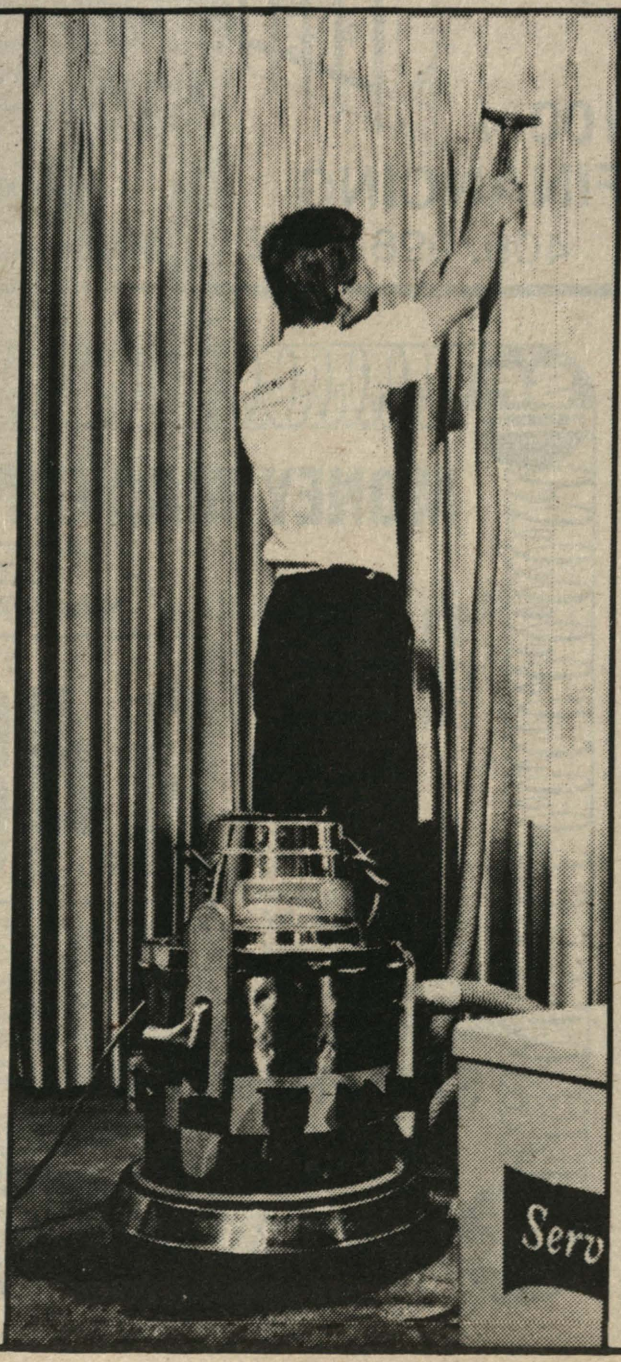

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Glossary...

Continued from page 28

INSURED ASSOCIATION. A savings association whose savings accounts are insured by the Federal Savings and Loan Insurance Corporation.

IRA. Individual Retirement Account. A plan, similar to Keogh, pronounced like "Key-O," that provides income after retirement to individuals who are not covered by a company pension plan.

KEOGH. A retirement plan, similar to social security, that provides income after retirement to self-employed individuals. The plan works like a savings account, but creates a tax shelter; i.e., funds deposited are not counted for income tax purposes until they are withdrawn at retirement. The plan is named after its inventor, former Congressman Eugene J. Keogh.

LENDABLE FUNDS. Funds available for investment in real estate loans. Prime sources of lendable funds are net savings receipts, loan repayments, loans sold, and advances from the FHLB.

LIABILITIES. The total amount of dollars in savings accounts plus money the association owes to the Federal Home Loan Bank.

LIQUIDITY. The cash position of an association measured by the cash on hand and in banks and government securities which are quickly convertible into cash.

LOANS IN PROCESS. The liability account representing the funds remaining to be disbursed on mortgage loans that have been closed.

NET SAVINGS RECEIPTS. Gross savings receipts less withdrawals.

NET WORTH. An association's total reserves, undivided profits, surplus, and capital stock, if any.

OPEN-END MORTGAGE. A mortgage under which the mortgaged property stands as security for the original loan, as well as for future advances which the lender may be willing to make.

RESERVES. That portion of the earnings of an association which has been set aside to take care of possible losses in the conduct of business. Reserves are listed in the balance sheets as a liability item.

SAVINGS AND LOAN ASSOCIATION. A financial intermediary which accepts savings from the public and invests these savings mainly in real estate loans. It may be either a mutual or capital stock institution, and it may be either state-chartered or federally chartered.

SAVINGS BALANCE. The savings liability of an association. The total amount owed to its savers; sometimes called savings capital.

STATE-LICENSED SAVINGS AND LOAN ASSOCIATION. A savings association licensed by the State Savings and Loan Commissioner. Such intitutions operate under the supervision of the commissioner and, because they are insured, also under the supervision of the Federal Home Loan Bank Board. They may be mutual or capital stock. However, in California, all but a dozen of the 87 state-licensed associations are capital stock associations.

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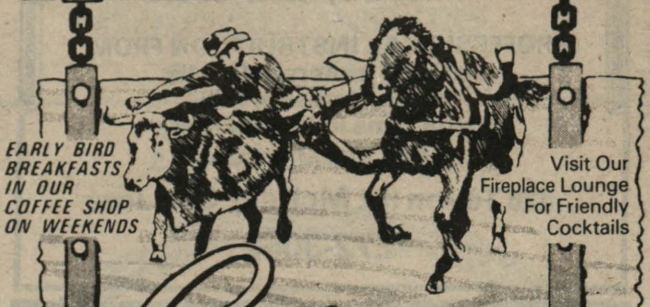

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Retirement planning: start now for security later on

What with inflation and recent rumblings about social security and pension troubles, you may think your chances for a comfortable retirement are slim. Or, you may be so caught up with the demands of the present that retirement isn't even in your thoughts.

Pessimist or procrastinator, you should be doing some hard-nosed planning starting now. That's true whether your retirement is 30 years away, or two. Strategies will differ according to your age and financial resources.

How much money will you need?

To maintain your standard of living during retirement years, you'll probably need just two-thirds or three-fourths of your annual pre-retirement income. That's because you won't spend so much on clothes, transportation, business lunches, gifts, or entertainment. And after age 65, you'll have special tax advantages: double exemptions, retirement income credit, reduced capital gains taxes when you sell your home, non-taxable income, and local and property tax exemptions.

If you're willing to simplify your life-style and move to a less expensive place (some spot in the Sun Belt, for example), you and your spouse could retire comfortably tomorrow on an income of about $10,000 a year — provided your major financial obligations, such as mortgages and college are paid off, and you have at least $10,000 in savings or investments.

But no matter what your resources, your retirement needs are bound to become greater in succeeding years, thanks to inflation. Since 1970, the Consumer Price Index has risen an average of more than five percent a year. That pace is not likely to slow; in fact, recent figures run well over six percent. At an inflation rate of six percent compounded annually, you'll need $1,338 five years from now for every $1,000 today; $1,791 in 10 years; $3,207 in 20; $5,743 in 30.

Clearly, inflation must figure in your planning, and the longer you live, the more you must take inflation into account. Some retirement income will come in predictable amounts; other income will have to make up the gaps inflation creates.

Where will the money come from?

Most retirees depend mainly upon these major sources of income:

• *Social security.* On the average, social security replaces about 44 percent of a person's former income. However, if you earn over the maximum taxed for social security, benefits might replace only 35 percent. If you earn less than the maximum (say, under $10,000), 58 percent or more of your income may be replaced by social security.

One way to figure your possibilities is to get the booklet *Estimating Your Social Security Retirement Check* from your local social security office. Use their guidelines to estimate what percentage of your income would be replaced if you retired today.

• *Pension.* Everyone should be eligible for a pension today, whether it's an Individual Retirement Account (IRA), a Keogh Plan, or an individual company plan. Unless you have precise information about your plan, experts suggest this formula for estimating company pension payouts,

Continued on page 31

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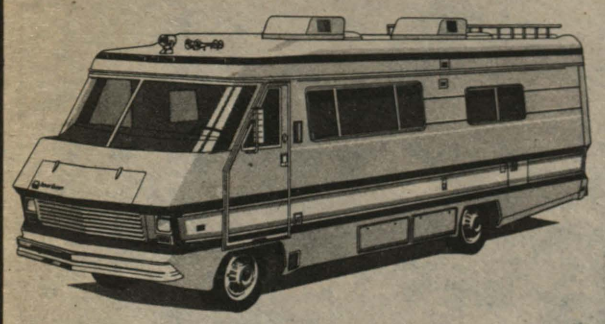

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Retirement...

Continued from page 30

based on national averages: Assume future salary increases of five percent a year. Then figure your annual pension as approximately 1.1 percent of the average last five years' salary, multiplied by the number of years worked. However, don't forget to take reductions into account if you retire early.

On the average at this time, combined social security and pension plans replace about 60 percent of retirees' former pay. But, if you're to live comfortably, you'll likely want about 75 percent of your present income.

How do you make up the difference?

Start to build up funds now, whatever your age. Your goals and your choice of savings and investment tools will depend upon when you plan to retire, what funds you think you'll need, what other obligations you face, what you can afford to risk. (With most investments, the higher the risk, the greater the potential gain — or loss.)

Generally, the younger you are and/or the more money you have, the more risks you can take — provided you've met other family obligations, of course. The older you are and/or the less money you have, the more you should stress safety and income.

During the past 40 years, investments in common stocks, mutual funds, closed-end funds, and real estate have kept pace, overall, with inflation. That's fortunate, since these are investments generally designed to grow in value, rather than just generate guaranteed income. But that's a general track record. The values of specific investments and even entire investment categories often deviated drastically from the general trend.

It takes knowledge and timing to invest in such a way that values keep up with inflation. Investments designed to grow in value are riskier than more conservative, income-producing investments. The former are more attractive to younger persons who have more time to recoup any losses and who must provide for financial security further into the future when most likely the value of a dollar will be even more ravaged by inflation.

Figuring an average annual inflation rate of at least six percent, your investments that are designed to hedge against inflation should yield (in capital gains and dividends) at least eight percent before taxes. Spend a lot of time studying your options and seek expert advice.

When you near retirement, you'll want to switch over to more conservative, income-producing investments. Generally, fixed-income investments offer the safe, high yield you need. Some of the more common possibilities are listed below.

- U. S. Treasury bills, notes, and bonds, backed by the "full faith and credit" of the U. S. Government. They generally yield more than savings accounts and are exempt from local taxes.
- Federal agency issues, such as certificates from the Government National Mortgage Association. Almost as secure as U. S. Treasury issues, these usually produce a slightly higher yield.
- Money market mutual funds, which concentrate on maximizing income by investing in highly liquid, short-term securities. At times of high short-term interest rates, these funds earn far more than savings accounts.
- Corporate and utility bonds. Such bonds represent the top-priority obligations of a company, so you're assured of receiving your interest before stockholders are paid.
- Tax-exempt bonds, especially if your income is high.
- Various forms of preferred stocks, such as "sinking fund" and "convertible preferreds."
- U. S. savings bonds, which provide special tax breaks.
- Annuities — including perhaps some "variable annuities" designed to try to keep up with inflation.

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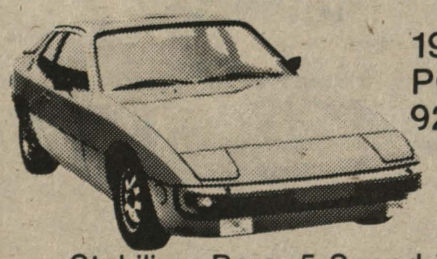

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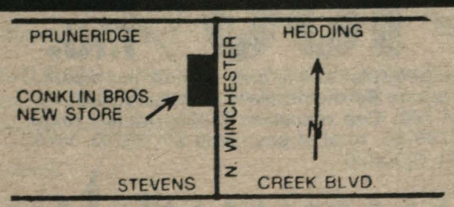

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